VIEWS

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Boost China-EU trade to nullify US tariffs

Published in 1776, Adam Smith's seminal work, *The Wealth of Nations*, laid the foundation for modern economic theory, advocating for the division of labor and free trade. Smith argued that specialization increases productivity and efficiency, leading to greater wealth for all. Free trade between countries follows the same principle: countries focus on producing what they do best and exchange goods and services freely, benefiting consumers with lower prices and better quality. Barriers such as tariffs disrupt this system, leading to inefficiency and economic losses.

Global Lens

Despite these well-respected insights, US President Donald Trump asserts that tariffs will "Make America Great Again". He is once again pursuing a "reciprocal tariff" policy, imposing duties on imports from countries that have tariffs on US goods, claiming this will protect US industries and jobs while generating revenue.

However, economic realities contradict this view. Tariffs function as a tax on consumers and businesses, leading to higher prices and inflation. As import costs rise, manufacturers relying on foreign raw materials face increased production costs, often passing these costs on to consumers. Also, retaliatory tariffs by other countries harm US exporters, reducing market access and causing job losses in affected industries. The economic disruptions triggered by tariffs far outweigh any short-term revenue gains.

Reports indicate that the US' reciprocal tariff policy disproportionately impacts major trade partners such as the European Union, Brazil and India. Among them, the EU may emerge as the "biggest loser", as US tariffs target crucial sectors such as automobiles, where the EU holds a competitive edge. The EU's auto industry, already facing challenges from electrification and regulatory pressures, could face more problems if its access to the US market is reduced.

However, the impact extends beyond automobiles. The machinery, pharmaceutical and aerospace industries are also vulnerable to trade barriers. Given that these sectors contribute significantly to the EU's GDP and employment, prolonged tariff conflicts could lead to economic slowdown, job losses, and reduced investment.

At the same time, Chinese manufacturers have made significant progress in electric vehicle production and innovation, a challenge EU automakers are struggling to address.

Adding to the pressure, Trump is also pushing large EU companies to move production to the United States, arguing that it would create jobs and strengthen the US economy. Trump claims the EU exploits the US economically, but the fact is: while the US has a trade deficit with the EU in goods, the EU has a trade deficit with the US in services.

The US also benefits significantly from high-skilled immigration, including professionals from Europe and elsewhere in the world who contribute to US innovation and industry. Many of the most groundbreaking companies in Silicon Valley have been founded or led by immigrants, and numerous Nobel Prize winners in science and economics have come from abroad. For example, Elon Musk, founder of Tesla and SpaceX, grew up in South Africa, got his university education in Canada, and later built his business empire in the US.

A critical factor to consider is that the US threat to impose tariffs may be part of a strategic game to force the EU into making concessions, buying more US products, or increase imports of US oil and gas. The EU has several potential responses to the US' trade pressures. It could use counter-tariff measures, making US goods more expensive in the EU markets.

But such measures risk escalating the trade conflict, eventually harming both economies. A more strategic response would be to diversify trade relations away from the US. The EU has already been pursuing trade agreements with Latin America, Canada and India, aiming to expand market access and reduce dependence on any single trading partner.

The EU and the four Mercosur (Southern Common Market) countries — Argentina, Brazil, Paraguay and Uruguay — recently reached a political agreement to develop a deep partnership. The EU is already Mercosur's most important trade and investment partner. By deepening trade relations with China, the EU could further access a vast market for its exports, particularly in high-value industries such as automotive, luxury goods and pharmaceuticals. China, facing its own trade challenges with the US, is likely to welcome closer economic cooperation with the EU, potentially offering investment opportunities and reduced trade barriers.

In addition, European Commission President Ursula von der Leyen, during her recent visit to India with a high-profile delegation, held detailed discussions on a free trade agreement with the country. The EU and India aim to sign the agreement by the end of the year, making it the largest trade deal of its kind anywhere in the world. The EU hopes to gain greater access to the Indian market for its cars and spirits, despite India's traditionally high tariffs on these goods, and is pushing for a broader investment agreement.

However, negotiations on agriculture remain difficult, with both sides struggling to find common ground.

While the US seeks to exert economic pressure through tariffs, it is unlikely that the EU will be the biggest victim of these policies. The EU remains an economic powerhouse with a large internal market, and a strong and diversified export orientation. Unlike smaller economies that struggle to absorb trade shocks, the EU is resilient enough to adjust its trade strategy and mitigate the effects of US tariffs, while its commitment to multilateral trade agreements reinforces its ability to navigate economic challenges. Given these strengths, the US will find it difficult to effectively execute its tariff policy without facing significant domestic backlash.

As a result of these developments, the EU is likely to pursue greater strategic independence in economic and other foreign policy matters, including military issues. The shift away from its reliance on US trade could extend to defense cooperation and diplomatic alignment. Strengthening China-EU ties may again emerge as a strategic priority, with economic collaboration forming the basis of broader geopolitical engagement.

While recent discussions have focused on reducing dependence on China in key supply chains, the practical need for stable trade relations may override decoupling efforts. As the EU seeks to hedge long-term risks, China will have an opportunity to enhance its standing and influence within the region. Additionally, the EU may develop a long-term strategy to attract and retain high-skilled migrants, ensuring that its own innovation ecosystem remains competitive compared with that of the US.

Ultimately, the US' reciprocal tariff policy may backfire, not only weakening its own economy but also accelerating the EU's shift toward a more diversified and independent global strategy. The EU's response will shape the future of international trade, highlighting the importance of strategic partnerships and economic resilience in an increasingly uncertain global landscape.

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The views don't necessarily reflect those of China Daily.

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Increasing consumption to drive quality growth

The third session of the 14th National People's Congress set China's economic agenda for 2025, with special focus on boosting demand and enhancing investment efficiency. Since one of China's major challenges is insufficient domestic demand, boosting demand is a core objective of the government this year.

Domestic demand can be divided into two parts: personal consumption and public consumption, with public consumption primarily focusing on public services and infrastructure development.

In terms of personal consumption, China needs to take measures to boost both supply and demand. On the supply side, optimizing the supply of the consumer goods and services involves two main aspects.

First, there is a need to empower traditional enterprises through technological advancements, including digitalization, to improve production efficiency and enhance the quality of products and services. In this regard, Chinese automakers are already promoting smart, light and electric vehicle technologies, enhancing the competitiveness of the country's auto industry.

Second, the authorities need to foster technological innovation to create new products, services and ecosystems that cater to emerging consumer needs. By improving the supply side, China can boost consumer demand and drive growth through innovative endeavors, including in the fields of films, animations, online literature and gaming. In recent years, games like *Black Myth: Wukong* have captivated audiences worldwide with their creative approach, boosting economic development and expanding China's cultural influence globally.

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In order to boost demand, the authorities should first help increase the purchasing power of consumers. Initiatives such as equipment upgrading and trade-in programs will encourage consumers to spend more on goods and services. On this front, the trade-in policy has already shown positive results in the automobile sector, with a notable increase in car sales.

According to the China Association of Automobile Manufacturers, car sales in 2024 grew by 4.5 percent year-on-year. This growth, achieved on an already high base of the previous year, can be partly attributed to the implementation of the trade-in policy.

To increase consumer spending, the central and local governments should continue supporting personal consumption, and encouraging financial institutions to help consumer markets grow. In fact, financial institutions issued more consumer loans last year, creating a win-win scenario for both the financial sector and consumers.

But while encouraging people to spend more on goods and services is necessary, helping enhance their purchasing power is equally, if not more, important. And since purchasing power increases due to rising incomes, it is essential for the government to take steps to increase people's incomes.

There are three sources of personal income: wages or salaries, business, and property sales. By implementing favorable policies and promoting technological innovation to strengthen industries, China is poised to boost the economy, which in turn will raise the employment rate and increase people's incomes. At the same time, by stabilizing the real estate and stock markets, and increasing stock dividends, the authorities can help households increase their income from property sales and investment.

Also, government subsidies are set to increase significantly, especially to help disadvantaged groups and improve social welfare programs such as healthcare, pensions, education and housing. This year will see the government acquiring existing housing stocks and turning them into affordable housing for urban residents. This move will greatly ease the housing burden of city residents and address the high real estate inventory problem.

In other words, boosting personal consumption requires optimizing supply and creating new consumption opportunities, as well as increasing incomes to unlock potential demand.

To boost public consumption, the central government has set the deficit ratio at around 4 percent this year, thereby bolstering the amount of resources at its disposal. The government introduced a debt conversion plan worth 12 trillion yuan ($1.65 trillion) in November to reduce the rising debts of local governments. The plan is aimed at replacing local governments' implicit debts with explicit debts, in order to revitalize their financial capabilities to a certain extent. This will boost their capacity to invest in local economic development and social welfare programs.

Both the central and local governments have a strong financial foundation, with accommodative monetary policy creating room for implementing more fiscal measures. In such circumstances, central and local government bonds will provide substantial funds for financing public works.

But while fiscal revenue is expected to increase this year, expenditure needs to be optimized. Over the past two decades, returns on investments have been diminishing because of the country's overreliance on investment-driven growth. To address the issue, the government should redirect part of the public spending to more efficient fields so as to increase revenue and social benefits.

To avoid redundant constructions and repetitive investments, it is imperative that governments at all levels meticulously plan their fiscal expenditure. Prioritizing limited financial resources in key areas is essential. For example, more fiscal funds should be allocated to social welfare programs to enhance the well-being and security of residents, which will help boost consumer confidence and spending. Besides, more investment is needed to promote technological innovation and high-quality development.

Looking ahead, while the dual engines of personal and public consumption will help boost domestic demand, coordinated efforts on both the supply and demand sides will increase public consumption. And the robust growth in domestic demand will inject new vitality into the Chinese economy, ushering in a new era of prosperity.

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The hard truth of soft power behind *Nezha, Black Myth*

The rise of China's soft power comes as no surprise. What is more intriguing is to observe the emerging new logic behind the shifting scenes. The landmark breakthrough appears like a meticulously orchestrated multi-act drama. First, *Black Myth: Wukong*, hailed as the "definer of next-generation Eastern fantasy", stormed global gaming markets. Then, DeepSeek R1 burst onto the scene, forcing Silicon Valley and similar tech hubs across the world to reassess China's competitiveness in AI.

Meanwhile, *Ne Zha 2* shattered many box office records for animation films, surpassing Pixar's *Inside Out 2* by a large margin.

Finally, as if to crescendo this momentum, a report from a prestigious London-based institution announced that China's soft power has not only climbed to second place among the 193 UN member states evaluated but also achieved significant growth in six of the eight "pillars of soft power" and two-thirds of specific metrics listed by Brand Finance.

Amid these phenomenon-level events, one analysis stands out. Beyond the overarching backdrop of societal and cultural progress, as well as the Belt and Road Initiative's role as a bridge between China and the world, a cluster of "hardcore" factors has been driving China's soft power ascendance. Economic diplomacy, technological leadership and global brand expansion are identified as new engines propelling Chinese soft power into the fast lane.

The growth of China's soft power is not a solo sprint in any single domain but a coordinated advance across economy, technology, culture, and society at large.

Over the past 17 years, the number of Chinese brands in Brand Finance's Global 500 surged from 13 to 68, with total value multiplying more than 23-fold. In the "advanced science and technology" category, China's "leading technological innovation" index rose to second globally. For four consecutive years, China has topped both "superior business environment" and "future growth potential" rankings. This reflects the international community's confidence in China's development prospects, and suggests that the Chinese wisdom of "development as the ultimate truth" applies equally to soft power cultivation.

Brand Finance CEO David Haigh rightly attributes China's soft power rise to sustained investments in economic appeal, cultural engagement and governance stability. Yet the root lies in China's unwavering focus on comprehensive modernization. The growth of China's soft power is not a solo sprint in any single domain but a coordinated advance across economy, technology, culture, and society at large. It mirrors the nation's rising comprehensive strength while offering a textbook case of hard power nurturing soft power.

For China, soft power acts as a global image reflecting both developmental achievements and aspirations, creating a virtuous cycle with hard power. Soft power elevation relies on hard power foundations. As China bolsters its economic and technological prowess, it transforms emerging tech advantages into potent vehicles for cultural narratives, vastly enhancing Chinese culture's global reach.

The coincidentally triumvirate success of "Wukong-DeepSeek-Ne Zha" exemplifies "hardcore soft power" forged through innovative fusion of technology and culture. In particular, *Ne Zha 2* and *Black Myth: Wukong*, now globally resonant cultural IPs, blend traditional heritage with modern digital technology to pioneer new modes of tech-empowered cultural expression.

Three and half decades after Joseph Nye, a professor at Harvard University, introduced the concept of soft power in *Bound to Lead: The Changing Nature of American Power*, the picture is changing. A new variable — technology — is redefining soft power. Every cultural wave rides technological breakthroughs; every tech revolution reshuffles cultural influence.

While technological progress marches perpetually forward, the thrust of progress at this particular moment carries transformative implications for soft power. Core to this shift is information technology, which disrupts one-way cultural exports and one-sided processing of cultural symbols. A decentralized cultural transmission model is redrawing the global cultural map, tilting the balance away from traditional power centers.

In a broader paradigm shift, deeper trends may be crystallizing. Nye's original concept, inevitably tinged with Cold War mentality, framed soft power as a strategic tool to assist hard power and maintain hegemony.

Amid discussions on how turbulent geopolitics might reshape global soft power dynamics, one correlation seems plausible: future evaluation frameworks may marginalize ideological biases, while soft power as a substitute for warfare must retreat. Should the unfolding chaos of today yield any constructive outcome, let it be a recalibration of global perceptions, fostering a more balanced and healthy soft power ecosystem.

Nye's definition of soft power as "the ability to shape the preferences of others through appeal and attraction rather than coercion or payment" remains largely valid. Nevertheless, a sequel to *Soft Power: The Means to Success in World Politics* might need to be written to align with the changing realities of the world.